

# INDONESIA LIFE INSURANCE NEWSLETTER

AUGUST 2018

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We are pleased to announce the appointment of Brian Colgan as Head of Life Insurance Consulting, Indonesia. Brian is a Fellow of the Institute and Faculty of Actuaries and the Society of Actuaries in Ireland. He holds a PhD in Mathematical Sciences from Dublin City University in Ireland. With over 17 years' experience of working with insurers and reinsurers, Brian will be based in Jakarta and provide valuable support on the ground to our clients in the Indonesian market.

We trust you will find this edition informative. We look forward to receiving your feedback, questions or comments as always.



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## Market performance

### Industry performance at Q1 2018

According to the Indonesia Insurance Statistics published by the Financial Services Authority ('OJK'), the Indonesian life insurance industry has continued to perform strongly. The growth between Q1 2017 and Q1 2018 is summarized below.

FINANCIALS (IDR TRILLIONS)	Q1 2017	Q1 2018	% CHANGE
<b>Total Assets</b>	419.50	516.27	23%
<b>Net Premium Income</b>	33.15	47.39	43%
<b>Net Profit Before Other Comprehensive Income</b>	2.56	1.68	-34%
<b>Total Technical Reserves</b>	<b>313.43</b>	<b>398.54</b>	<b>27%</b>
- Premium Reserve	307.21	391.10	27%
- Unearned Premium Reserve	2.89	3.55	23%
- Claim Reserve	3.34	3.88	16%
- Catastrophic Reserve	0.00	0.01	0%

Source: OJK's Indonesia Insurance Statistics: March 2017 and March 2018.

Over this period, the industry has recorded Net Premium Income of IDR 47.39 trillion, a 43% growth year-on-year. Despite the increase in Net Premium Income, the Net Profit before OCI decreased by 34%, caused mainly by a 27% increase in total expenses and a significant decrease in investment income of 127%. Total expenses increased due to an increase in total claims which the OJK reports under total expenses. The decrease in investment income may be in part due to the underperformance in the equity market, signified by a drop in the Jakarta Composite Index ('JCI').

Total Technical Reserves and Total Assets increased by 27% and 23% respectively compared to the same period last year. The increase in Total Technical Reserves is driven by an increase in premium reserve.

## Market news

### Merger and acquisitions

It has been reported that **PT Bank Rakyat Indonesia ('BRI Bank')** is revisiting its plan to sell a minority stake in its life insurance subsidiary, **PT Asuransi BRI Life ('BRI Life')**. A similar plan commenced two years ago, only to stall towards the end of the process. Local media has reported that the sale could fetch at least US \$500 million.

### Capital injections

The following companies have either received or will be receiving capital injections:

- **PT Capital Life Indonesia ('Capital Life')** has received additional capital of IDR 2 trillion following the rights issue of **PT Capital Financial Indonesia Tbk. ('Capital Financial')** earlier this year. Antony Japari, CEO of Capital Life, is reported to have said that the additional capital would be used for expanding their bancassurance channel and range of single premium products.
- **PT Tugu Reasuransi Indonesia ('TuguRe')** expects to receive 30% of the funds raised through an IPO by their parent company **PT Asuransi Tugu Pratama Indonesia Tbk ('TUGU')**. TUGU is listed on the Indonesian Stock Exchange.

### Update on restructuring of Asuransi Jiwa Bersama Bumiputera 1912 ('AJBB 1912')

The OJK provided the following updates in connection with AJBB 1912:

- Outstanding claims reached at least IDR 1 trillion as at May 2018. The majority, 62%, of outstanding claim are maturities, while surrenders account for the majority of the balance.
- OJK has encouraged AJBB 1912's board of member representatives ('BPA') to select the new board of commissioners and board of directors to replace the current statutory managers.

### Syariah sector

Local media reported that:

- **PT Prudential Life Assurance ('Prudential UK')** is planning to spin off its Syariah business unit in 2024.
- **PT Bhinneka Life Indonesia ('Bhinneka Life')** is planning to establish its own Syariah business unit, which will be called 'Bhinneka Life Syariah'. The process is expected to be completed in 2018.

### Sanction revoked

The OJK has officially allowed **PT Asuransi Jiwa Recapital ('Recapital Life')** to resume accepting new business as the company is now compliant with the minimum RBC requirements following an additional capital injection of IDR 204.3 billion from its shareholder. Recapital Life was previously sanctioned by the OJK due to capital adequacy issues.

### Key appointments

- The Indonesian Ministry of State Owned Enterprises appointed a new board of directors to **PT Asuransi Jiwasraya ('Jiwasraya')**. The new board is as follows:
  - President Director: Asmawi Syam
  - Finance and Human Resources Director: Danang Suryono
  - Technical Director: Rianto Ahmadi
  - Investment and Technology Director: Hexana Sri Sasangko
  - Marketing Director: Indra Wijaya
  - Compliance Director: Muhamad Zamkhani

These appointments are in line with SK-132/MBU/05/2018 dated 18 May 2018.

- Gatot Mardiwasiso Trisnadi has been appointed as the new CEO of **BRI Life**, replacing Rianto Ahmadi who has been appointed as the Technical Director of Jiwasraya.

- Shadiq Akasya has been appointed as the new CEO of **PT BNI Life Insurance ('BNI Life')**, replacing Budi Tampubolon who has been appointed as the President Director of **PT AXA Financial Indonesia ('AFI')**. There are several changes to the board of directors of BNI Life. The revised board of directors is as follows:
  - President Director: Shadiq Akasya
  - Vice-President Director: Eben Eser Nainggolan
  - Director: Intan Abdams Katoppo
  - Director: Hidenobu Ito
  - Director: Naruyoshi Kuwata
- Dody Budi Waluyo has been appointed as Deputy Governor of The Indonesian Central Bank, replacing Perry Warjiyo who has been appointed as the Governor.

## Regulatory developments

### New regulations over Q2 2018

Relevant government regulations ('PP') and circular letters ('SEOJK') released during the period 1 April 2018 to 30 June 2018 are summarized as follows:

- **PP No. 14/2018** formalized the rules pertaining to foreign ownership, both existing and new, for insurance companies as below:
  - Foreign ownership for an insurance company is capped at 80% of paid-up capital.
  - The 80% cap of paid-up capital is not applicable to:
    - Publicly listed insurers;
    - Privately held insurers in which the cap has been exceeded prior to the effective date of regulation. Grandfathering is allowed. However, if the grandfathered companies increase their paid-up capital, then the additional paid-up capital must comply with the 80-20 rule.
  - The following regulations apply for new international players who enter the Indonesian market:
    - A "new player" is an existing foreign insurance company or a parent company that has insurance subsidiaries with identical lines of business as the proposed new company. For example, if the new player is a general insurer, then they are not allowed to enter Indonesia's life insurance market.
    - A foreign insurer must have equity of at least five times the value of its investment in a domestic insurer. This requirement applies either when a foreign insurer establishes a new domestic insurer or if the foreign insurer subscribes for/acquires shares in an existing domestic insurer.
    - Companies should also comply with other OJK requirements regarding financial health, credit ratings, etc.

- **SEOJK No. 10/SEOJK.05/2018** formalizes that applications for new insurance licenses should be submitted electronically to the OJK. This applies to both Conventional and Syariah insurance licenses as well as reinsurance companies. The regulation is in line with POJK No.67/POJK/05/2016.

## Distribution updates

The bancassurance channel is still the dominant mode of distribution based on statistics for Q1 2018. According to the Association of Life Insurance of Indonesia ('AAJI'), bancassurance contributes 46% of the total premium income, whereas agency contributes 37%.

### Bancassurance channel

The following new bancassurance partnerships have been announced:

- **Equity Life** and **PT Bank Pembangunan Daerah ('BPD Bali')** have entered into a bancassurance partnership, in which Equity Life will provide life insurance protection through three products which are designed specifically for Bali residents
- **Victoria Alife** and **PT Bank Bukopin ('Bukopin')** have entered into a bancassurance partnership selling credit life products to Bukopin's customers.
- **PT Prudential Life Assurance ('Prudential')** and **Bank OCBC NISP ('OCBC NISP')** have entered into an agreement offering unit-linked and Syariah credit life protection to OCBC NISP customers.
- **Centra Asia Raya ('CAR Life')** and **Bank Ina Perdana ('Bank Ina')** have entered into a bancassurance partnership. The products covered have not been disclosed.
- **Avrist Assurance ('Avrist')** and **KEB Hana Bank ('Hana Bank')** have entered into a bancassurance partnership, in which Avrist will offer Hana Bank's customers USD unit-linked products.
- **Indosurya Life** has entered into partnerships with five banks and one multifinance company to provide credit life protection to customers of those entities.

### Agency channel

The Association of Life Insurance of Indonesia ('AAJI') expects that the agency channel will still play a significant role in the life insurance market in the next five years.

The following companies have reported plans to expand their agency channel:

- **Wanaartha Life** is planning to double its agency force this year. In 2017, Wanaartha Life increased its agency force from approximately 2,000 to 5,000 agents and increased premium income by 70%. It plans to launch new traditional and unit-linked products for distribution through its larger agency channel.
- **Bhinneka Life** plans to expand its agency network by recruiting 1,000 new agents every month. At the moment, they are recruiting 300 agents monthly.

- **Zurich Topas Life** is planning to increase its agency force in 2018, increasing the number from approximately 4,800 to 6,500. In addition, the company is also planning to increase the number of quality agents through increasing the number of agents that qualify for the Million Dollar Round Table.

#### Digital channel

**Ciputra Life** has launched a digital portal through its website, joining several others in the market such as FWD and Sequis Life.

#### Others

New non-bank partnerships that have been announced are:

- **PT Sunlife Financial Indonesia ('Sunlife')** and **Tcash** (an electronic money provider by Telkomsel) have entered into a partnership that allows Sunlife to offer three microinsurance products through Tcash's digital channel.
- **MNC Life** and **Karunia Multifinance** have entered into a partnership that allows MNC Life to provide credit life protection to Karunia Multifinance customers.
- **PT Manulife Indonesia ('Manulife')** has entered into partnership with **Fatayat NU** (an Islamic women's organization under the guidance of Nahdhatul Ulama) that allows Manulife to provide Syariah microinsurance cover through digital applications to Fatayat NU's members.
- **AXA Financial Indonesia ('AFI')** and **Shell** have entered into partnership that allows Shell to sell accident death benefit and health coverage products from AFI to their customers.

### Other recent developments

#### Macroeconomics

Indonesia's economic condition has been somewhat volatile over Q2 2018. The IDR-USD exchange rate and JCI have both significantly decreased despite the confirmation of BBB- credit rating by S&P, low inflation (May (0.21%) and June (0.59%)), and projected GDP growth by The World Bank of 5.2%. The reasons for the volatility are:

- The impact of the trade war between the US and China,
- Uncertainty as to whether Indonesia will achieve the Q2 2018 target GDP Growth, and

- The impact of local elections which indicate that incumbent President Joko Widodo (the market-favorite) will face a tough battle in the 2019 presidential election.

#### Pensions business

It was reported from the local media that several life insurance companies plan to apply for a DPLK license. Currently, **PT Capital Life Indonesia ('Capital Life')** and **PT Asuransi Jiwa Adisarana Wanaartha ('Wanaartha Life')** have both submitted applications to the OJK.

#### Digital investment

Allianz, through its digital investment arm Allianz X, invested USD\$ 35m in Go-jek, an Indonesian-based ride sharing platform. Go-jek and Allianz established a partnership two years ago when Allianz provided health insurance cover to Go-jek drivers and their families. Joos Louwerier (CEO of Allianz Life) believes that together Allianz and Go-Jek can offer unique financial products to more people.

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